Renewable Energy

Compelling Risk-Reward; Prospects Remain Bright

OVERWEIGHT
(Maintained)

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Highlights

- We expect record-high EPCC replenishment opportunities of RM13b-23b over the next five years for the sector (three-year earnings CAGR of 28% over 2025-28F), with existing players benefitting from elevated orderbooks. Valuations appear attractive and we believe risk of rising solar module prices (+22% mom) and margin compression are largely priced in.
- Key re-rating catalysts for the sector include: a) a stronger ringgit to offset rising solar PV costs; b) CRESS and/or SELCO contract wins; and c) eventual monetisation of solar assets – either via a listing or trade sale.
- The sector has underperformed the FBMKLCI by 31% ytd and valuations are undemanding at -1SD from mean levels. We view this as a good opportunity to accumulate quality names with earnings visibility and growth potential. We reiterate our OVERWEIGHT call on the sector as we initiate coverage on Solarvest (BUY/Target Price: RM3.00) and Northern Solar (BUY/Target: RM1.00).

Analysis

- **Staggering RM13b-23b of EPCC opportunities over 2026-28.** We expect total solar photovoltaic (PV) installed capacity to exceed 6.5GW in 2026-29 as the government calls for tenders for the Large-scale Solar (LSS) 6 bidding programme and the rollout of corporate renewable energy supply scheme (CRESS) projects. Assuming a construction cost of RM2.0m-3.5m per MW, total engineering, procurement, construction and commissioning (EPCC) replenishment opportunities are estimated at a staggering RM13b-23b over the next five years, with a projected three-year earnings CAGR of 28% over 2026-28 for the sector.
- **We initiate coverage on Solarvest Holdings with a BUY call and a target price of RM3.00,** pegged to 25x FY28 EPS (+1SD from mean PE). We believe Solarvest's partnership with Brookfield is a strong lever that will pivot Solarvest into the next phase of growth. The partnership will pave the way for the group to lift orderbook meaningfully via the sizeable CRESS to the tune of 1.5GW over a three-to-five year period. Key re-rating catalysts include: a) a stronger ringgit to offset rising solar PV costs; b) cost discipline to drive sustainable profit margins; c) pioneer CRESS contract wins; and d) eventual monetisation of solar assets either via listing or trade sale.
- **Initiate coverage on Northern Solar with a BUY rating and target price of RM1.00.** Our target price is pegged to 11x FY28 EPS (-1SD from mean PE), implying an upside potential of 84%. Northern Solar is currently trading at an attractive valuation of 9.6x FY27F PE with a three-year earnings CAGR of 40% over FY25-28F. We like Northern Solar as a niche player within the RE space – managing power efficiency for small-to-medium sized C&I customers (≤1MW). Near-term prospects appear bright as the company is set to leverage on the new Solar ATAP scheme. To add, Northern Solar is set to benefit from bite-size BESS solutions to help existing customers shave off MD charges.

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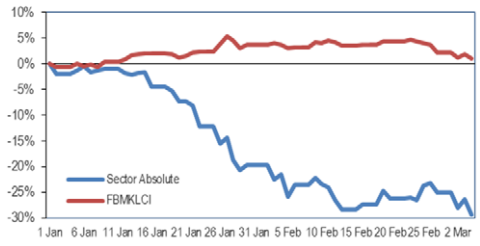
Sector Picks

Company	Rec	Target Price (RM)	PE (x)	Div Yield (%)
Solarvest	BUY	3.00	19.3	0.0
Pekat Group	BUY	2.00	14.2	0.8
Northern Solar	BUY	1.00	9.6	0.0

Source: Bloomberg, UOB Kay Hian

RE Sector YTD Share Price Performance



Source: Bloomberg, UOB Kay Hian

Sector PE Band

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	FYE	Rec	Share Price 4 Mar 26 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2026F (x)	PE 2027F (x)	EV/EBITDA 2026F (x)	EV/EBITDA 2027F (x)	Dividend Yield 2026F (%)	Dividend Yield 2027F (%)
Solarvest Holdings	SOLAR MK	31 Mar	BUY	1.99	3.00	1,888	24.9	19.3	15.0	12.1	0.0	0.0
Pekat Group	PEKAT MK	31 Dec	BUY	1.29	2.00	911	16.9	14.2	4.3	3.1	0.8	0.8
Northern Solar	NORTHERN MK	31 Mar	BUY	0.545	1.00	216	13.7	9.6	6.3	4.1	0.0	0.0
Samaiden Group	SAMAIDEN MK	30 Jun	NOT RATED	1.03	n.a.	518	20.2	16.1	10.7	8.8	1.7	1.8
Sunview Group	SUNVIEW MK	31 Mar	NOT RATED	0.345	n.a.	196	21.6	18.2	10.1	9.1	0.0	0.0

Source: Bloomberg, UOB Kay Hian

- **Risk: Increase in solar module prices.** Solar module prices are expected to trend up to US$0.13/W by Jun 26 (currently: US$0.12/W), following China's removal of value added tax (VAT) export tax rebates for PV products effective 1 Apr 26. In addition, the upcoming rebate removal (from 9% rebate to 0% rebate) and rising raw material prices (polysilicon: +39% yoy, copper: +40% yoy, silver: +167% yoy) have strengthened suppliers' incentives to reprice contracts and increase module pricing. While silver accounted for about 14% of total solar module costs in 2025, its cost contribution has risen to over 20% in recent months and could increase further in tandem with elevated silver prices. While these are clear risks to rising cost of sales, we note that the ringgit has appreciated 12% yoy, partly mitigating higher solar module prices.
- **Earnings sensitivity to higher solar PV prices.** Our sensitivity analysis estimates the impact of rising solar module prices on EPCC players' gross profit margins. Among them, Northern Solar is the most exposed, with an about 0.4ppt margin compression for every 1% increase in module prices. That said, we understand that a strong ringgit will mitigate the rising module prices by 0.1-0.2ppt. Solarvest follows at an around 0.3ppt margin contraction per 1% increase, while Pekat Group appears relatively more insulated, with an about 0.2ppt compression, owing to its diversified revenue mix, with solar EPCC contributing only around 30% of near-term earnings. That said, we understand that all the players have hedged their current orderbook position in terms of solar module orders as well as negotiating cost pass-through agreements with asset owners. Most industry participants hold sufficient inventory for ongoing projects, according to our recent channel checks – some up to two years of orderbook pipeline.

Solar Programmes Within Malaysia's Renewable Energy Sector

Company	2025/FY26F Gross Profit Margin	Change in Gross Profit Margin Assuming 1% Increase in Solar Module Prices
Solarvest	26%*	-0.3pp
Pekat Group	24%	-0.2pp
Northern Solar	30%*	-0.4pp

** Data for FY26F*
Source: Respective companies, UOB Kay Hian

Valuation/Recommendation

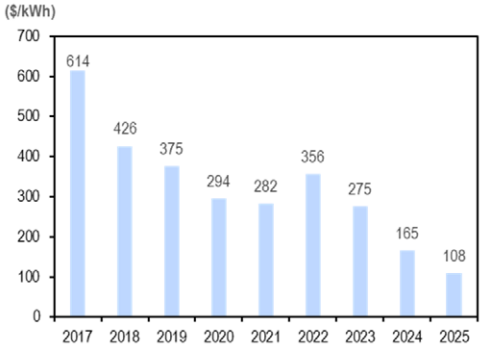
- **Maintain OVERWEIGHT; elevated orderbook driven over 6.5GW of solar plant-ups.** We expect total solar PV capacity to exceed 6.5GW over 2026-29 as the government calls for tenders for the LSS6 and see the take-off CRESS projects. Assuming a construction cost of RM2.0m-3.5m per MW, total EPCC replenishment opportunities are estimated at a staggering RM13b-23b in the next five years. **We reiterate OVERWEIGHT on the sector. Our sector top picks are Solarvest, Pekat Group and Northern Solar.**

Fair Value Range For Stock Under Our Coverage

	-2SD (RM)	-1SD (RM)	Mean (RM)	+1SD (RM)	+2SD (RM)	Comment
Solarvest Holdings	1.48	2.07	2.67	3.27	3.87	-2SD: 12.0x PE -1SD: 16.8x PE Mean: 21.7x PE +1SD: 26.6x PE +2SD: 31.5x PE
Pekat Group	0.89	1.21	1.52	1.84	2.16	-2SD: 9.8x PE -1SD: 13.3x PE Mean: 16.7x PE +1SD: 20.2x PE +2SD: 23.7x PE
Northern Solar	0.92	1.15	1.38	1.61	1.84	-2SD: 9.6x PE -1SD: 12.0x PE Mean: 14.4x PE +1SD: 16.8x PE +2SD: 19.2x PE

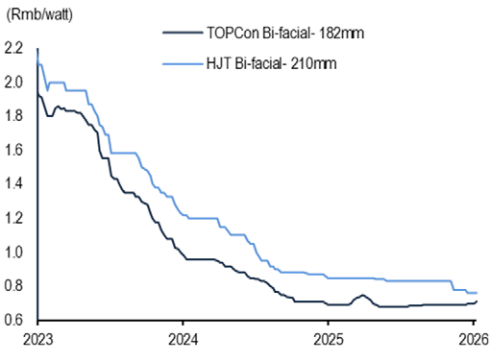
Source: Respective companies, Bloomberg, UOB Kay Hian

Turnkey BESS Historical Price



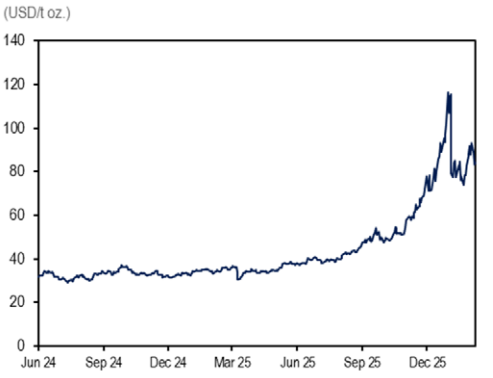
Source: BNEF, UOB Kay Hian

Solar Module Prices



Source: Infolink, UOB Kay Hian

Silver Historical Prices



Source: Infolink, UOB Kay Hian

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